

Message Text

UNCLASSIFIED

PAGE 01 BERN 02112 120830Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 EPG-02 OMB-01 NSC-05 SS-15 STR-04
CEA-01 /101 W
-----122232Z 047363 /13

R 111330Z MAY 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4323
INFO AMEMBASSY BONN
USMISSION EC BRUSSELS
USMISSION GENEVA
USDEL MTN GENEVA
AMEMASSY LONDON
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY VIENNA
AMCONSUL ZURICH

UNCLAS BERN 2112

PASS TREASURY AND FRB; VIENNA FOR ELLIS

EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAY 1-7

1. SUMMARY:. DEVELOPMENTS CONTINUED TO BE OVERSHADOWED
BY CREDIT SUISSE CHIASSO BRANCH SACNDAL. FINANCIAL
MARKETS WERE NERVOUS WITH SWISS FRANC UNDER PRESSURE.
BANK SHARE PRICES FELL FURTHER. INVESTORS EXPECT LONG
TERM INTEREST RATES TO RISE SNB ACCUSED BALLY
HOLDING CO OF CURRENCY VIOLATIONS. GOVT ASKED
PARLIAMENT RENEW CURRENCY PROTECTION DECREE. BANK
LECLERK IN GENEVA CLOSED. PARLIAMENT APPROVED
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BERN 02112 120830Z

GOVT FINANCIAL PROGRAM.

2. FOREIGN EXCHANGE AND GOLD: MARKET WAS NERVOUS.
REPORT OF INCREASE LEADING US ECONOMIC INDICATORS
BROUGHT DOLLAR UP TO SF 2.52 TUESDAY. WEDNESDAYS
EUROMARKET DISCOUNTING BROUGHT DOLLAR DOWN TO SF
2.51 WHILE DM, FLORIN AND YEN RATES ROSE. SWISS

NATIONAL BANK INTERVENED THURSDAY TO SUPPORT DOLLAR RATE WHICH MIGHT HAVE FALLEN FURTHER IF FRANC WERE NOT WEAKENED BY CHIASSO AFFAIR. DOLLAR CLOSED SF 2.52 FOLLOWING ANNOUNCEMENT OF HIGHER US MONETARY SUPPLY TARGETS. GOLD PRICE ROSE TO 148 AND HELD AFTER IMF SALE. RATES FOLLOW:

ITEM - 5/2(OPEN) - 5/6(CLOSE)

SPOT DOLLAR - 2.5155 - 2.5228
FORWARD DISCOUNTS (PCT PA)
ONE MONTH - 1.86 - 1.14
2 MONTHS - 1.81 - 1.28
3 MONTHS - 1.99 - 1.36
6 MONTHS - 2.00 - 1.53
12 MONTHS - BLANK - 1.94
SF/DM - 106.82 - 107.30
GOLD - 147.25 - 148.00

3. CAPITAL AND MONEY MARKETS: MARKETS WERE NERVOUS. SLIGHTLY TIGHER SNB MONETARY POLICY, INVESTOR EXPECTATIONS AND DESIRE FOR MORE LIQUIDITY COMBINED TO RAISE COST OF MONEY. CALL MONEY RATE ROSE TO 4.5 PERCENT. SHARE PRICES OF FIVE LARGEST BANKS FELL ADDITIONAL 4.3 TO 7.4 PERCENT. FINANCIAL AND INSURANCE COMPANIES' SHARES HAD SIMILAR LOSSES WHILE INDUSTRIAL SHARE PRICES WERE MIXED; SKA INDEX (1959 - 100) DOWN 1.8 PERCENT TO 223.1. AVERAGE YIELD CONFEDERATION BONDS ROSE TO 4.10 IN HEAVY DISCOUNTING OF LOW YIELD UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BERN 02112 120830Z

ISSUES. BOND ISSUE BY GENEVA GOVT SF 60 MILLION AT 4 PERCENT INTEREST WAS UNSUCCESSFUL; BANK UNDERWRITERS TOOK SF 15 MILLION ON THEIR OWN ACCOUNT. BANKERS ASID INVESTORS ARE HOLDING BACK AWAITING HIGHER LONG TERM RATES. DOMESTIC BORROWERS HAVE ANNOUNCED LOANS WITH INTEREST RATES OF 4 TO 5.25 PERCENT WHILE FOREIGN BORROWERS ARE OFFERING 5.5 TO 5.57 PERCENT.

4. CHIASSO AFFAIR: THERE WAS MIXED REACTION IN PARLIAMENT TO GOVT STATEMENT THAT FEDERAL COUNCIL AWAITING OUTCOME OF JUDICIAL AND BANK COMMISSION INVESTIGATIONS BEFORE IT WILL DRAW CONCLUSION ON CHIASSO SCANDAL. SOCIALISTS ANNOUNCED POPULAR INITIATIVE FOR GOVT CONTROL OF BANKS, ESPECIALLY BIG THREE, BY FORMING MIXED PUBLIC/PRIVATE COMPANIES. TEXT NOT YET PREPARED AND INITIATIVE PROCESS WOULD NOT BRING MATTER BEFORE VOTERS UNTIL 1980. SOCIALISTS ALSO SAID GOVT HAD RUSHED TO HELP BIG BANK BUT LET SMALL FIRMS GO UNDER DURING RECESSION AND

NOTED CHIASSO AFFAIR INVOLVED TAX EVASION WHILE SWISS BEING CALLED TO VOTE INCREASED TAXES. OTHERS, NOTING HUMAN FAILING HAD SERIOUSLY AFFECTED CREDIBILITY OF BUSINESS AND BANK SYSTEM, URGED CALM WHILE AWAITING REPORTS OF INVESTIGATIONS UNDERWAY.

5. OTHER CHIASSO DEVELOPMENTS: CREDIT SUISSE DIRECTORS CLEARED BOARD CHAIRMAN AEPPLI OF INVOLVEMENT BUT ACCEPTED VOLUNTARY RESIGNATIONS MAY 10 OF GENERAL DIRECTOR WUFFLI DEPUTY DIRECTOR DEMIEVILLE AND HONARARY PRESIDENT SCHULTHESS. UNION BANK OF SWITZ OFFICIAL SAID BANKS HAD TOLD CREDIT SUISSE DIRECTORS LONG AGO THAT EXCESSIVE INTEREST RATES WERE PAID IN CHIASSO. PROSECUTOR SAID CHIASSO OFFICIALS GUARANTEED SF 1 BILLION, FOR INVESETMENTS IN TEXON OR FOR LINES OF CREDIT OPENED BY FOREIGN BANKS FOR COMPANIES IN WHICH TEXON HAD INVESTED. THREE TICINO LAWYERS ON UNCLASSIFIED

UNCLASSIFIED

PAGE 04 BERN 02112 120830Z

TEXON BOARD WERE CHARGED WITH UNLAWFUL MANAGEMENT AND FALSIFYING DOCUMENTS. SWISS BANK CORP GENERAL DIRECTOR SAID CHIASSO IS ISOLATED CASE, THAT SIMILAR CASE COULD NOT OCCUR IN BANK CORP, AT LEAST NOT TO SAME EXTENT, AND GAVE HIS SUPPORT TO CREDIT SUISSE MANAGEMENT.

6. SNB VIEWS: SNB PRESIDENT LEUTWILER SAID SF 3 BILLION STANDBY CREDIT OFFER HAD PREVENTED CATASTROPHE AND SAID SNB HAS SUFFICIENT TOOLS TO PREVENT BIG BANK FAILURE. BANK SYSTEM IS NOT IN QUESTION, BUT THERE IS NEED TO ASSURE PROPER FUNCTIONING. GOVT PARTICIPATION WOULD NOT PREVENT SCANDALS FROM HUMAN FAILINGS. LEUTWILER EXPRESSED CONFIDENCE IN CREDIT SUISSE MANAGEMENT AND DOUBTED THEY KNEW OF CHIASSO AFFAIR UNTIL RECENTLY, THOUGH SNB HAD WARNED BANKS ABOUT OVER-EXPANDING THEIR ACTIVITIES. SNB VICE PRESIDENT SCHUERMAN SAID GOVT SHOULD ASSURE THAT LIECHTENSTEIN LAWS ON CORPS ARE CONSISTENT WITH SWISS LAWS.

7. BANK SECRECY: LEUTWILER (SNB) SAID BANKS AGREED BEFORE CHIASSO AFFAIR TO EXAMINE BANK SECRECY ON DEPOSITS WITH VIEW TO RE-INFORCING CONDITIONS OF ACCEPTANCE, CLEARLY INDENTIFYING CLIENTS AND DTERMINGING ORIGIN OF FUNDS. HE SAID NUMBERED ACCOUNTS PROBABLY SHOULD DISAPPEAR BUT SWISS CANNOT POLICE OTHER COUNTRIES AFFAIRS.

8. IMF FACILITY: SNB MANAGING DIRECTOR LANGUETIN SAID SWISS ARE PREPARED TO PARTICIPATE IN INCREASED IMF

FACILITY TO HELP FINANCE BALANCE OF PAYMENTS DEFICITS
PROVIDING OPEC COUNTRIES CONTRIBUTE AND THAT
BORROWING COUNTRIES TAKE CORRECTIVE DOMESTIC ECONOMIC
MEASURES.

UNCLASSIFIED

UNCLASSIFIED

PAGE 05 BERN 02112 120830Z

9. BALLY HOLDING: SNB FILED COMPLAINT WITH FEDERAL
FINANCE AND CUSTOMS DEPT AGAINST BALLY HOLDING
CO, ZURICH FOR ALLEGED VIOLATION OF FEDERAL DECREE
REQUIRING PRIOR AUTHORIZATION TO BORROW FUNDS ABROAD.
ALLEGED VIOLATION OCCURED WHEN SYNDIKATS AG OBTAINED
MAJORITY INTEREST IN BALLY. PENALTY IS IMPRISONMENT
OR FINE OF SF 50,000 TO SF 100,000, DEPENDING ON INTENT.

10. CURRENCY LAW: GOVT REQUESTED PARLIAMENT
RENEW THREE-YEAR DECREE ON PROTECTION OF THE
CURRENCY UNTIL REVISED SNB LAW IS PASSED.

1. BANK CLOSURE: LECLERC AND CO, PRIVATE GENEVA
BANK, CLOSED ITS DOORS MAY 9 BECAUSE OF LIQUIDITY
DIFFICULTY FOLLOWING SF 10 TO 30 MILLIONLOSS FROM
RISKY REAL ESTATE INVESTMENTS REPORTEDLY MADE OUTSIDE
NORMAL BANK CHANNELS BY ONE OF THE BANKS'S ASSOCIATE
OWNERS.

12. FEDERAL FINANCIAL PROGRAM: UPPER HOUSE OF PARLIAMENT
APPROVED GOVTS FINANCIAL AND TAX REFORM PROGRAM,
TO WHICH ALL FOUR UMAJOR POLITICAL PARTIES HAVE NOW GIVEN
THEIR BACKING. HOWEVER, ALLIANCE OF INDEPENDENTS (FIFTH
LARGEST PARTY) IS OPPOSING VALUE ADDED TAX IN JUNE
REFERENDUM.
DAVIS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL DATA, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 11-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BERN02112
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770168-0311
Format: TEL
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770572/aaaacjvc.tel
Line Count: 207
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c9f14497-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2575618
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF MAY 1-7
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/c9f14497-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009